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BOW VALLEY INDUSTRIES LTD. / ANNUAL REPORT 1967

HIGHLIGHTS

	1967	1966
Gross Income	$20,433,962	$18,716,102
Cash flow	$ 2,806,208	$ 2,624,437
Depreciation and depletion	$ 1,410,158	$ 1,016,751
Net Income	$ 1,211,546	$ 1,300,137
Shares outstanding	1,074,447	1,074,363
Cash flow per common share	$ 2.61	$ 2.37
Net Income per common share	$ 1.03	$ 1.13

The 1967 Annual General Meeting of the Shareholders of Bow Valley Industries Ltd. will be held at the offices of the Company at 10:00 a.m. Tuesday, September 19, 1967.

BOW VALLEY INDUSTRIES LTD. *and subsidiary companies*

A SEVEN YEAR SUMMARY OF FINANCIAL HIGHLIGHTS

	1967	1966	1965	1964	1963	1962	1961*
Gross income	$20,433,962	$18,716,102	$12,183,845	$ 9,316,636	$ 7,137,454	$ 5,282,649	$ 4,955,636
Cash flow	2,806,208	2,624,437	1,689,892	1,272,456	1,128,105	846,483	759,053
Depreciation and depletion	1,410,158	1,016,751	714,440	556,049	501,829	397,326	359,967
Net income	1,211,546	1,300,137	876,337	637,436	501,923	387,786	319,723
Shares outstanding –							
Common	1,074,447	1,074,363	992,600	880,000	860,000	800,000	800,000
Preferred	97,480	99,580	—	—	—	—	—
Cash flow per common share	$ 2.61	$ 2.37	$ 1.70	$ 1.45	$ 1.31	$ 1.06	$ .95
Net income per common share	$ 1.03	$ 1.13	$ .88	$ .72	$ .58	$ .49	$ .40
Dividends –							
Common	$ 193,393	$ 187,207	$ 153,604	$ 139,200	$ 110,200	$ 100,000	$ 160,000
Preferred	$ 108,131	$ 82,500	—	—	—	—	—
Dividends per share –							
Common	18¢	18¢	16¢	16¢	13¼¢	12½¢	20¢
Preferred	$ 1.10	87½¢	—	—	—	—	—

* Shares outstanding and per share figures have been adjusted to reflect a 4 for 1 stock split in fiscal year 1962.

BOW VALLEY INDUSTRIES LTD.

Officers

Daryl K. Seaman	PRESIDENT
Byron J. Seaman	VICE-PRESIDENT
H. Donald Binney	VICE-PRESIDENT
Donald R. Seaman	VICE-PRESIDENT
H. Keith Lazelle, C.A.	SECRETARY-TREASURER

Directors

FREDERIC J. AHERN, *Vice-President, The United Corporation*	New York, U.S.A.
H. DONALD BINNEY, *Vice-President, Bow Valley Industries Ltd.*	Calgary, Alberta
RAYMOND W. HAMMELL, *Vice-President, The Bank of New York*	New York, U.S.A.
WILLIAM A. HOWARD, Q.C., *Barrister and Solicitor*	Calgary, Alberta
WILLIAM S. HULTON, C.A., *The Mercantile Bank of Canada*	Vancouver, B.C.
DARYL K. SEAMAN, *President, Bow Valley Industries Ltd.*	Calgary, Alberta
BYRON J. SEAMAN, *Vice-President, Bow Valley Industries Ltd.*	Calgary, Alberta
DONALD R. SEAMAN, *Vice-President, Bow Valley Industries Ltd.*	Calgary, Alberta
D'ALTON L. SINCLAIR, *President, Charterhouse Canada Limited*	Toronto, Ontario
HENRY C. VAN RENSSELAER, *Financial Advisor*	Calgary, Alberta

Head Office

630 - 6TH AVENUE SOUTH WEST . . . . Calgary, Alberta

Transfer Agents

Common Stock
GUARANTY TRUST COMPANY OF CANADA . . . . Calgary and Toronto

Preferred Stock
THE ROYAL TRUST COMPANY . . . . Calgary, Winnipeg, Toronto and Montreal

Registrars

Common Stock
GUARANTY TRUST COMPANY OF CANADA . . . . Calgary and Toronto

Preferred Stock
GUARANTY TRUST COMPANY OF CANADA . . . . Calgary, Winnipeg, Toronto and Montreal

Auditors

PRICE WATERHOUSE & CO. . . . . Calgary, Alberta

Legal Counsel

HOWARD, BESSEMER, MOORE, DIXON, MACKIE & FORSYTH . . . Calgary, Alberta

Bankers

THE ROYAL BANK OF CANADA . . . . Calgary, Alberta

THE MERCANTILE BANK OF CANADA . . . . Calgary, Alberta

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

EARNINGS AND DIVIDENDS

Fiscal 1967 was another good year for your company and its consolidated subsidiaries. Gross income rose to \$20,433,962 compared to \$18,716,102 a year earlier. Net income of \$1,211,546, or \$1.03 per common share, was down from \$1,300,137, or \$1.13 a share last year. This was related to increased depreciation and depletion charges which were \$393,407 higher in 1967. Cash flow of \$2,806,208 amounted to \$2.61 per share compared to \$2,624,437 and \$2.37 per share in 1966.

Dividends on the common stock of 18¢ per share in fiscal 1967 were the same as payments in 1966 and continue to reflect the policy of your Board of Directors to reinvest a large percentage of the company's earnings in the business.

During the year preferred shareholders received dividends totalling \$1.10 per share.

OPERATIONS –

Contract Drilling

In fiscal 1967 the contract drilling revenues of your company were 5.3% higher than in the previous year. Contract drilling operations were influenced by the concentration of exploratory effort in Northwestern Alberta. As a consequence your company's structure test hole and seismic rigs were in strong demand while the level of drilling activity in the southern plains of Alberta and Saskatchewan decreased sharply. Drillings rigs in Northwestern Alberta were active during the winter drilling season, but largely idle during the summer months when muskeg conditions made rig movement almost impossible.

As of May 31, 1967 your company's subsidiaries owned thirty oil well drilling rigs, four structure test hole rigs and eighteen seismic rigs.

During January 1967 a medium depth oil well drilling rig was partially destroyed by fire. The loss was fully covered by insurance and the non-recurring gain in the amount of \$101,703 was credited directly to surplus.

Investment in rig acquisitions and improvements during the year totalled \$1,481,604.

The outlook for contract drilling during the coming year does not appear to be materially changed from conditions which existed in fiscal 1967. There is evidence that drilling activity in the southern plains may be higher than last year, but improvement in this area is likely to be offset by an inactive summer for your company's equipment located in the northern areas.

Exploration and Development of Oil and Gas Properties

A balanced program is followed in budgeting oil and gas expenditures, consisting of exploratory drilling, development drilling and acquisition of producing oil and gas properties. In fiscal 1967 these expenditures amounted to \$3,108,062 of which \$1,825,701 was allocated to the purchase of producing properties. In addition, the company manages programs for other participants, receiving an administrative fee, together with a net profits or carried interest.

As of May 31, 1967, your company held working and net profits interests in a number of land blocks in Western Canada including holdings in the Zama-Rainbow area considered prospective for Keg River reef accumulations. A number of these land blocks will be tested by drilling during fiscal 1968.

Subsequent to the end of fiscal 1967 commercial accumulations of hydrocarbons have been encountered in two wells in which your company has an interest in the Zama River area. No details on either of these discoveries will be released at this time. The company has a 12½% working interest in one of these wells and the 320 acres on which it is located which increases to approximately a 20% interest after payout. The company owns an 11¼% working interest in the other well and the 320 acres on which it is located which increases to an approximate 18% interest after payout.

Oil and gas revenues after payment of royalties amounted to $1,462,566 in 1967 compared to $969,044 in the preceding year and $792,000 in 1965.

Minerals Exploration

Over the past few years your company has participated in several mineral exploration programs. During the summer of 1966 the company, in a joint venture with others, undertook a program of mineral exploration in the Yukon. Four separate groups of claims were staked and further evaluation work is being done on these claims during the summer of 1967. A further exploratory program in Northern British Columbia is being conducted during the current summer season with the same exploration group. Your company has a 12½% interest in all of these programs.

Oilfield Equipment and Supplies

Sales volume for Cardwell Supply Ltd. was relatively unchanged from 1966 levels but profit margins were lower than anticipated.

The warehouse operation for the Great Canadian Oil Sands Ltd. project began to operate under contract on July 1, 1967 and is expected to contribute to earnings in fiscal 1968.

The demand for seismic bits increased during the past year reflecting the high level of seismic activity in Northwestern Alberta. As a consequence, your company's 60% owned subsidiary, Canadian Oil Tool Limited experienced an excellent year.

Subsequent to the year end, Bow Valley's interest in Canadian Oil Tool Limited was sold to Kennametal Inc. for a cash consideration of $840,000. The proceeds from this sale will provide resources to enable your company to capitalize on growth opportunities which are expected to develop during the next twelve months.

Real Estate

During the past year a number of attractive homes have been built adjoining your company's 454 acres in Southwest Calgary. This has enhanced the value of the property and has advanced the time when a program for its development can be undertaken. The company has entered into an agreement with a well known developer who has the right to acquire and develop a minimum amount of land each year.

AFFILIATED COMPANIES

Your company's ownership of Northward Aviation Ltd. (33%) and Pan-Oceanic Drilling Ltd. (20%) remains unchanged from last year. Ownership in Western Rock Bit Company Limited of 10.2% compares to 10.5% last year.

Bow Valley's equity in the net income of the affiliated companies was not significant in 1967.

GENERAL

The Board of Directors decided that it would be advantageous to merge all the wholly owned subsidiaries with the parent company, their businesses to be operated in the future as divisions of Bow Valley Industries Ltd. As a first step, in June 1967, all the minority interests in Alcon Petroleums Ltd. were purchased by your company. It is believed the result of the mergers, when undertaken, would be a simplification of corporate structure which would contribute to operating efficiency.

The Board of Directors again wish to express their appreciation to all the employees of the Bow Valley group of companies without whose loyal support the company's progress would not be possible.

Respectfully submitted
on behalf of the Board of Directors,

August 16, 1967

President

BOW VALLEY INDUSTRIES LTD. *and subsidiary companies*
(an Alberta company)

ASSETS

	1967	1966
CURRENT ASSETS:		
Cash	$ 304,655	$ 12,624
Accounts receivable –		
Trade	3,565,783	2,971,623
Other	369,917	582,621
Inventory of materials, supplies and merchandise, at lower of cost or net realizable value	4,106,473	2,899,068
Prepaid expenses	91,021	95,219
	8,437,849	6,561,155
CAPITAL ASSETS, at cost:		
Land, buildings, drilling and other equipment and developed and undeveloped oil and gas properties	18,202,164	14,209,313
Less – Accumulated depreciation and depletion	6,344,324	5,574,100
	11,857,840	8,635,213
COST OF INVESTMENT IN SUBSIDIARIES IN EXCESS OF BOOK VALUE at date of acquisition	720,204	720,204
OTHER ASSETS AND DEFERRED CHARGES:		
Investments in and advances to associated companies, at cost	656,921	580,845
Unamortized deferred charges and sundry assets	620,127	560,201
	1,277,048	1,141,046
	$22,292,941	$17,057,618

CONSOLIDATED BALANCE SHEET

MAY 31, 1967
(with comparative figures for 1966)

LIABILITIES

	1967	1966
CURRENT LIABILITIES:		
Operating bank loans, secured	$ 1,113,800	$ 405,000
Bankers' acceptances, secured	900,000	—
Accounts payable and accrued	3,075,140	2,110,071
Estimated income taxes payable	33,042	7,187
Long term debt due within one year	1,516,727	1,062,717
	6,638,709	3,584,975
LONG TERM DEBT (Note 3)	6,111,952	5,137,302
MINORITY SHAREHOLDERS' INTEREST in subsidiary companies	639,437	409,288
SHAREHOLDERS' EQUITY:		
Share capital (Note 4) –		
5½% cumulative redeemable preferred shares Series A of a par value of $20 each –		
Authorized and issued – 100,000 shares		
Outstanding – 97,480 shares (1966 – 99,580)	1,949,600	1,991,600
Common shares of no par value –		
Authorized – 1,500,000 shares		
Issued and outstanding – 1,074,447 shares (1966 – 1,074,363)	1,739,208	1,738,893
Capital redemption reserve fund	50,400	8,400
Contributed surplus	6,750	—
Retained earnings, per statement attached (Note 5)	5,156,885	4,187,160
	8,902,843	7,926,053
CONTINGENT LIABILITIES (Note 7)		
	$22,292,941	$17,057,618

Approved on behalf of the Board:

D. K. SEAMAN, *Director*

B. J. SEAMAN, *Director*

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED MAY 31, 1967
(with comparative figures for 1966)

	1967	1966
INCOME:		
Contract drilling, sale of oil field equipment and supplies and other revenue	$18,779,879	$17,623,084
Oil and gas sales, less royalties	1,462,566	969,044
Sundry income	191,517	123,974
	20,433,962	18,716,102
COSTS AND EXPENSES:		
Cost of sales and operating	14,737,779	14,227,207
General and administrative	1,961,620	1,525,387
Depreciation and depletion (Note 1)	1,410,158	1,016,751
Interest on long term debt	537,011	245,409
Dry hole costs and properties abandoned	220,962	270,264
Amortization of deferred charges (Note 1)	71,673	37,285
Taxes on income (Note 2)	33,064	7,353
	18,972,267	17,329,656
	1,461,695	1,386,446
MINORITY SHAREHOLDERS' INTEREST in income of subsidiary companies	250,149	86,309
NET INCOME FOR THE YEAR	1,211,546	1,300,137
RETAINED EARNINGS, BEGINNING OF YEAR	4,187,160	2,944,457
Excess of fire loss claims over book value of assets destroyed	101,703	220,673
	5,500,409	4,465,267
DIVIDENDS PAID –		
Preferred shares	108,131	82,500
Common shares	193,393	187,207
	301,524	269,707
	5,198,885	4,195,560
Amount transferred to capital redemption reserve fund	42,000	8,400
RETAINED EARNINGS, END OF YEAR	$ 5,156,885	$ 4,187,160

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED MAY 31, 1967
(with comparative figures for 1966)

	1967	1966
Source of Funds:		
Operations –		
Income for year before minority interest, depreciation and depletion, amortization of deferred charges and dry hole costs and properties abandoned	$ 3,164,488	$ 2,710,746
Issue of $4,000,000 principal amount of 7% Sinking Fund Debentures	—	3,776,916
Increase in bank loans and other long term debt, less repayments	974,650	—
Proceeds from fire loss claims	156,824	269,829
Issue of 5½% cumulative redeemable preferred shares, net	—	1,887,505
Issue of common shares	315	235,168
	4,296,277	8,880,164
Application of Funds:		
Investment in and advances to associated companies	76,076	394,893
Investment in subsidiary companies	125,000	146,832
Net additions to capital assets –		
Land, buildings, drilling and other equipment	1,675,806	1,841,691
Developed and undeveloped oil and gas properties	3,108,062	1,780,117
Other assets	151,599	150,886
Redemption of 7% First Mortgage Bonds, Series "A"	—	1,000,000
Retirement of other long term indebtedness	—	327,694
Redemption of preferred shares	35,250	8,400
Dividends	301,524	269,707
	5,473,317	5,920,220
Increase (decrease) in working capital	(1,177,040)	2,959,944
Working capital, beginning of year	2,976,180	16,236
Working capital, end of year	$ 1,799,140	$ 2,976,180

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 1967

1. PRINCIPLES OF CONSOLIDATION AND ACCOUNTING POLICIES:

The accounts of all subsidiary companies have been included in the consolidation, namely, Hi-Tower Drilling (Alberta) Ltd., Hi-Tower Drilling Service Ltd., Cardwell Distributing Ltd., Cardwell Supply Ltd., Mainland Industrial Supplies Limited, Bow Valley Land Co. Ltd., Antelope Drilling Company Limited, Sedco Exploration Ltd., Alcon Petroleums Ltd. and subsidiary and Canadian Oil Tool Limited and subsidiary.

Depreciation of drilling and related equipment is calculated by the diminishing balance method and depreciation of well equipment by the straight line method at rates that will amortize such assets over periods not exceeding their estimated service lives. Depletion of producing properties and well costs is provided for by the unit of production method based on estimated recoverable reserves of oil and gas. Lease rentals and costs of dry holes and surrendered properties are expensed.

Preferred share issue expense and long term debt issue expense of $333,456 are being amortized over a period of ten years and over the terms of the issues respectively. Other deferred charges of $186,512, including franchises, preliminary expenditures on a warehouse operation and other expenditures applicable to future periods, are being amortized mainly over a period of five years.

2. INCOME TAXES:

Income taxes are calculated on the basis of capital cost allowances claimed which approximate depreciation provided for in the accounts on a cumulative basis. The total taxes otherwise payable have been reduced mainly by allowable deductions in respect of costs incurred from participation in oil and gas programs and acquisition of producing oil and gas properties.

3. LONG TERM DEBT (secured):

	1967	1966
Bank loans, at current rate of interest, repayable at the rate of $88,540 per month	$ 3,170,044	$ 1,763,667
7% Sinking Fund Debentures Series A, due March 1, 1986, redeemable, with annual sinking fund instalments of $158,000 each due 1967 to 1985 inclusive	3,842,000	4,000,000
6½% First Mortgage Income Bonds, repayable at the rate of $5,750 per quarter	103,500	—
Non-interest bearing note, payable in monthly instalments of $5,000	15,000	75,000
6½% Mortgage	—	31,350
6% agreement for sale, repayable in annual instalments of $22,400 in each of the years 1967 to 1969 inclusive	67,200	89,600
Notes payable on equipment purchases	430,935	240,402
	7,628,679	6,200,019
Less – Amount due within one year	1,516,727	1,062,717
	$ 6,111,952	$ 5,137,302

4. SHARE CAPITAL, SHARE PURCHASE WARRANTS AND SHARE OPTIONS:

A Series A Preferred Share Purchase Fund is being used under which the Company is to expend $40,000 annually for the purchase for redemption of preferred shares, provided such shares are available in the open market at a price not exceeding their par value. During the fiscal year, 2,100 preferred shares were purchased and cancelled and the gain arising on cancellation was credited to contributed surplus. Pursuant to the Alberta Companies Act, retained earnings in the amount of $42,000 were transferred to the capital redemption reserve fund.

During the fiscal year 84 common shares were issued upon exercise of warrants for a cash consideration of $315.

Of the authorized but unissued common shares, 155,553 shares were reserved as at May 31, 1967 for issue upon the exercise of:

(a) Outstanding warrants attached to the 7½% Debentures redeemed on November 24, 1964, which entitle the holders thereof to purchase 5,568 common shares of the Company at $3.75 per share to May 31, 1973.

(b) Outstanding warrants attached to the 5½% Cumulative Redeemable Preferred shares Series A which entitle the holders thereof to purchase on or before July 15, 1970, 99,985 common shares of the Company at $9.50 per share.

(c) Options granted, or to be granted, as to 50,000 common shares to officers and employees of the companies under the terms of the Company's Incentive Stock Option Plan as amended on August 19, 1966. As at May 31, 1967, options were outstanding to purchase 32,000 shares at a price of $17.10 per share, exercisable on or before March 3, 1971. During the fiscal year no options were granted or exercised and options on 750 shares were cancelled upon resignation of certain employees.

5. RESTRICTION ON DIVIDENDS:

Under the terms of the trust deed for the 7% Sinking Fund Debentures Series A and the conditions of the issue of the 5½% Cumulative Redeemable Preferred Shares Series A, the declaration and payment of dividends on common shares is subject to the following restrictions:

(a) Dividends shall not be declared or paid if after giving effect to such declaration or payment the aggregate of the consolidated retained earnings and consolidated contributed surplus is less than $3,000,000.

(b) Dividends shall not be paid unless after giving effect to such dividends the amount of the consolidated retained earnings, as defined, is at least 125% of the par value of the Series A preferred shares then issued and outstanding.

6. CURRENT ASSETS SUBJECT TO LIENS:

During the fiscal year, two subsidiary companies issued 6% floating charge debentures, payable on demand, of $2,000,000 each on their current assets as security for operating bank loans and bankers' acceptances in the aggregate amount of $2,000,000. As at May 31, 1967, the operating bank loans and bankers' acceptances of the two subsidiary companies totalled $1,050,000 and their current assets aggregated $4,970,000.

7. CONTINGENT LIABILITIES:

The Company and/or one or more of its subsidiaries are contingently liable (a) for discounted conditional sales contracts receivable in the amount of $651,420 and (b) for loans of minority shareholders of a subsidiary company of $88,000 (subsequently retired).

Title litigation relating to certain oil and gas properties of the Company and certain subsidiaries is pending which, if the decision were unfavourable would not result in any material reduction in the capital assets of the Company and its subsidiaries. In the opinion of Counsel, the result of the litigation should not be unfavourable to the companies.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Direct remuneration of the Company's directors and senior officers for the year ended May 31, 1967 amounted to $218,010.

9. SUBSEQUENT EVENTS:

Subsequent to May 31, 1967, the Company acquired the minority share interest in Alcon Petroleums Ltd. for a cash consideration of $668,380 and sold its 60% share interest in Canadian Oil Tool Limited for a cash consideration of $840,000, resulting in a gain of $127,620.

AUDITORS' REPORT

To the Shareholders of
BOW VALLEY INDUSTRIES LTD.

We have examined the consolidated balance sheet of Bow Valley Industries Ltd. and subsidiary companies as at May 31, 1967 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the combined companies as at May 31, 1967 and the consolidated results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Calgary, Alberta, August 16, 1967.

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